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AUTHOR Ashmore, M. Catherine; Pritz, Sandra G.
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ABSTRACT

This individualized, competency-based unit on choosing the type of ownership, the fifth of 18 modules, is on the third level of the revised Program for Acquiring Competence in Entrepreneurship (PACE). Intended for the advanced secondary and postsecondary levels and for adults wanting training or retraining, this unit, together with the other materials at this level, emphasizes the actual application of a business plan. Three competencies are dealt with in this instructional unit, including (1) analyzing the appropriate choice of ownership for one's business, (2) following the steps necessary to file ownership for one's business, and (3) defining policies and procedures for a successful, multiple-owner operation. Materials provided include objectives, preparation information, an overview, content (with questions in margins that guide the students' reading), activities, assessment forms, and notes and sources. The unit requires using approximately three hours of class time. (YLB)

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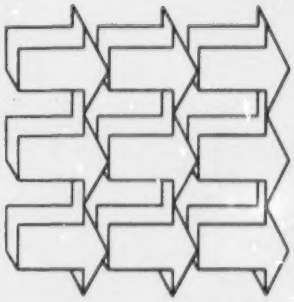

UNIT 5

☐ Level 1
☐ Level 2
☑ Level 3

Choosing the Type of Ownership

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Analyze the appropriate choice of ownership for your business.**
- **Follow the steps necessary to file ownership for your business.**
- **Define policies and procedures for successful, multiple-owner operation.**

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BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Levels 1 and 2:

   Level 1 -

   - Describe sole proprietorships, partnerships, corporations, cooperatives, and franchises
   - Identify examples from your own community of each of the types of business ownership
   - Describe the advantages and disadvantages of proprietorships, partnerships, corporations, franchises, and cooperatives

   Level 2 -

   - Explain the basic principles of a sole proprietorship, a partnership, a corporation, a cooperative, and a franchise
   - Identify the factors that influence the choice of a type of ownership
   - Investigate sources of assistance in choosing a type of ownership

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

   feasibility study
   venture capital

CHOOSING THE TYPE OF OWNERSHIP

WHAT IS THIS UNIT ABOUT?

Starting a new venture may have been relatively simple twenty years ago, but today it is not simple at all. Deciding on your organization's form of ownership is important. What may be a pressing concern under one circumstance may not be as pressing in a different situation. Your decision concerning the best form of organization will probably be a compromise reached after weighing the importance of certain needs against the limitations of each form.

The main purpose of this unit is to examine the appropriate choice of ownership for your business, the steps necessary in filing ownership, and the policies and procedures necessary for successful multiple-owner operation.

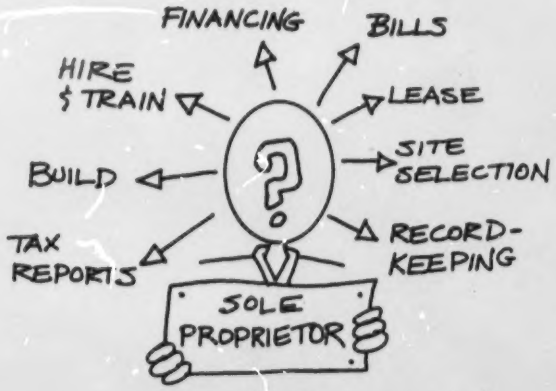
WHAT IS THE APPROPRIATE CHOICE OF OWNERSHIP FOR YOUR BUSINESS?

As an entrepreneur, you must analyze the appropriate choice of ownership for your business. You should consider many factors, such as startup costs, the amount of control you desire, the amount of personal risk you are willing to assume, your need for assistance in particular areas, and so forth.

The checklist on the following page should give you some ideas concerning the appropriate choice of ownership for your business. You, as an entrepreneur, must be the one to decide.

WHAT IS A SOLE PROPRIETORSHIP?

The most common form of business organization is the sole proprietorship, sometimes called the individual proprietorship. This business is owned by one person. It is usually operated by this person, possibly with the help of a few employees, often family members. Sole proprietorships can usually operate with very limited capital resources (money). Sole proprietorships exist in a great variety of businesses, such as the neighborhood beauty parlor, bike repair shop, restaurant, newsstand, and accounting office.



The sole proprietorship is the least complicated form of organization, and the easiest to enter and terminate. Entry requires little more than a location, expertise in the area of business considered, a source of capital, the ability to make contracts, and the desire to start your own business. Termination generally requires paying your debts and closing your doors.

TABLE 1

ADVANTAGES/DISADVANTAGES OF TYPES OF OWNERSHIP

Forms of Ownership	Advantages	Disadvantages
Sole Proprietorship	1. Low start-up costs 2. Greatest freedom from regulation 3. Owner in direct control 4. Minimal working capital requirements 5. Tax advantage to small owner 6. All profits to owner	1. Unlimited liability 2. Lack of continuity 3. Difficulty in raising capital
Partnership	1. Ease of formation 2. Low start-up costs 3. Additional sources of venture capital 4. Broader management base 5. Possible tax advantage 6. Limited outside regulation	1. Unlimited liability 2. Lack of continuity 3. Divided authority 4. Difficulty in raising additional capital 5. Difficulty in finding suitable partners
Corporation	1. Limited liability 2. Specialized management 3. Transferable ownership 4. Continuous existence 5. Legal entity 6. Possible tax advantages 7. Ease of raising capital	1. Close regulation 2. Most expensive form to organize 3. Charter restrictions 4. Extensive recordkeeping 5. Double taxation
Franchise	1. Smaller-than-usual capital investment 2. Less working capital than normally required 3. Prior public acceptance of product or service 4. Management assistance 5. Better-than-average profit margins	1. Possible high franchisor fees, supplies, and charges 2. Some loss of independence 3. Possible difficulties in cancelling contracts

SOURCE: Adapted from Kuebbeler, Gary L. *Going into Business for Yourself.* Columbus: Ohio Distributive Education Materials Lab, The Ohio State University, n.d.,

WHAT REWARDS DOES A SOLE PROPRIETORSHIP PROVIDE?

Most of today's corporate giants were once sole proprietorships. A sole proprietorship is worthwhile for the person who is willing and able to meet the challenges. A successful sole proprietor can point to her or his accomplishments with pride and say, "I did that." However, it involves many responsibilities.

WHAT DOES BEING A SOLE PROPRIETOR MEAN LEGALLY?

As a sole proprietor, your liability is limited to your own errors and obligations. But in case the business fails, your personal assets—including home, automobile, and other properties—are subject to claim by creditors.

As a sole proprietor, you must be all things to your company. It is your responsibility to select the site. You must decide whether to lease a previously owned store, factory, or warehouse, or to have one built to your own specifications. You, as owner, must know enough about all the functions required to operate a business. If you own a restaurant, you must decide on the menu and include the right number of selections. You must be willing to work long hours, establish a recordkeeping system, prepare tax reports, and hire and train personnel. As sole proprietor, you must arrange any financing that your business needs and pay your creditors. All these abilities are seldom possessed by one person.

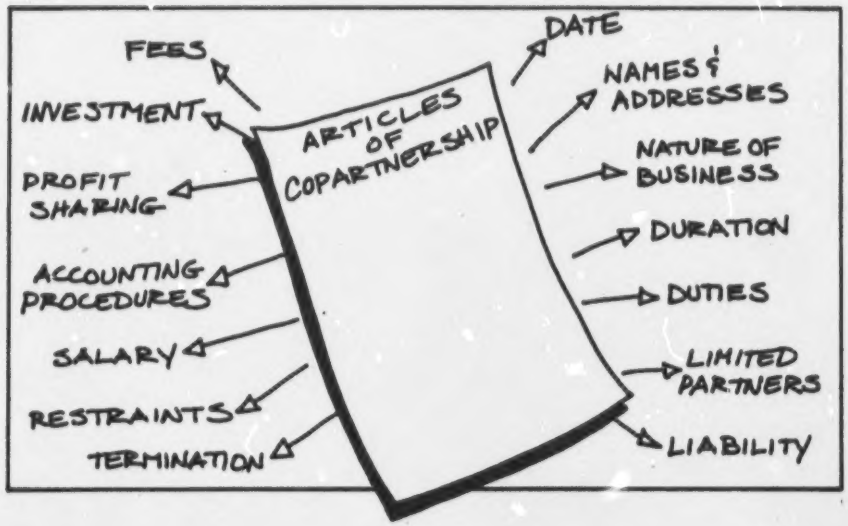
WHAT ABOUT THE SOLE PROPRIETOR AND TAXES?

One main advantage of a sole proprietorship is its tax advantage. The sole proprietorship is not a separate tax-paying or tax-reporting unit. The proprietor's operations are treated as part of the owner's financial activities. Separate records are kept of business income, deductions, inventories, and capital acquisitions. This profit or loss is combined with other personal income for tax purposes. The personal income tax rate is often lower than the corporate one. Therefore, taxes are generally lower for the sole proprietor.

WHAT DOES A PARTNERSHIP MEAN LEGALLY?

Forming a partnership can be a challenge. Finding compatible partners can be extremely difficult. No matter how well the partners know each other or how long they have been friends, the partnership cannot survive without a written agreement or contract. Some have spent their entire lives repaying debts run up by a partner who left with all the profits and half the inventory.

To aid in the success of a multiple-owner operation, policies and procedures should be established in articles of copartnership.



WHAT ITEMS SHOULD BE IN THE ARTICLES OF COPARTNERSHIP?

Articles of copartnership ensure that each partner does his or her share of work and gets a fair share of the profits. Certain items should be included in the agreement. You might want to use the following as a checklist when reviewing your partnership agreement:

- The date of the agreement
- The names and addresses of all the partners
- The nature of business
- The duration of the partnership
- The managerial duties of each general partner
- The specification of each type of limited partner (whether silent, dormant, secret, or nominal) and the liability, if any, of each
- The fee to be paid any nominal partner
- The amount of investment by each partner
- How profits and losses will be shared
- Accounting procedures to be used
- Salary or drawing account arrangements for each partner
- Restraints on each partner, if any
- How the partnership will be terminated

The last item is extremely important. Provisions must be made to dissolve the partnership in case one partner wants to leave the business for other employment, or because of illness or death. Arrangements must be made to dissolve the partnership fairly.

The articles of copartnership should be written by a lawyer, notarized or witnessed by an uninvolved party, and kept in a safe place. It is a contract, and therefore is legally binding.

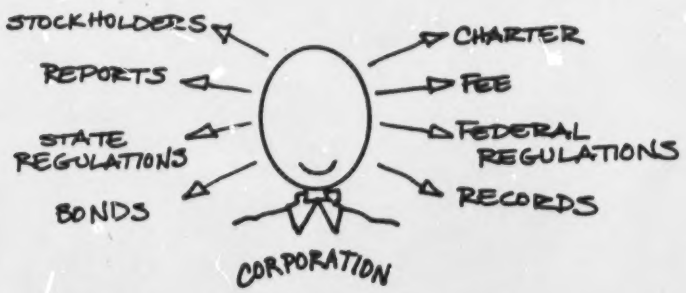
The Uniform Partnership Act, drafted by the National Conference of Commissioners on Uniform State Laws and approved by the American Bar Association, should be consulted as a guide.

WHAT ABOUT THE PARTNERSHIP AND TAXES?

Taxes on a partnership are reported and paid like those on a sole proprietorship. On each partner's personal income tax return, income from the business is reported. Tax is paid on it along with tax on any other income. The partner reports his or her share of the profit earned during the tax period that ends within the year being reported (by December 31 or June 30). This is done whether profits are actually distributed then or not.

WHAT DOES BEING A CORPORATION MEAN LEGALLY?

The corporation is by far the most structured and complicated form of business organization. Very rarely does the new or first-time owner form a corporation. A successful sole proprietor or a partnership that wishes to expand or to remove the personal unlimited liability is most likely to move to the corporate form. Since the corporation is a creation of law, it is impersonal and exists apart from the individuals who share its ownership.



A corporation must be chartered. When a state issues a charter, the firm's activities are specified. A firm incorporated as a drug store could not legally engage in manufacturing. The geographic area in which the firm can operate is limited to the state granting the charter.

The sole proprietor or business partners of a business that becomes incorporated can exchange the assets owned for shares of stock. This may be done tax-free if the former proprietor or the former partners own 80 percent of the stock, their control of the corporation is immediate, and the assets are transferred solely in exchange for stock and securities in the new corporation.

WHAT ABOUT THE CORPORATION AND TAXES?

Corporations are taxed more than sole proprietorships and partnerships. Not only must taxes be paid by the corporation itself, but they must be paid again by persons taking profit from the corporation. In order to forestall this "double taxation," consult an attorney about forming a subchapter corporation, which is ideal for new and low income businesses. With this type of corporation, your corporation may be taxed at lower rates. Regardless, corporate taxes are at a higher percentage or bracket than personal taxes.

Corporate tax reporting may be done in two ways:

1. The corporation is treated as a separate taxpayer and pays a corporate tax on its income. The shareholder (owner) pays personal tax on her or his receipts of salary, dividends, and interest from the corporation.

2. Under the Subchapter Section of the Internal Revenue Code, the corporation reports its income or loss. Shareholders report income on their tax returns, even if they have not withdrawn money or property from the corporation. If the corporation incurs losses, the shareholders can deduct losses on their tax returns.

Under the first method, anything you, as the owner, do not withdraw is taxed at a corporate level and then taxed again when you withdraw it. The second method avoids this.

WHAT IS A CERTIFICATE OF INCORPORATION?

To begin operations as a corporation, you must receive a charter from the state in which you want to operate. The application for a charter is called a certificate of incorporation. The exact requirements vary from state to state, so check with your state before having a lawyer draw up your charter application. Since some requirements are basic, you might use the following list to review your charter application.

- The specific name of the corporation (which, in the U.S., includes the abbreviation "Inc."). The name cannot be the same as one already in use when the charter is issued.
- The specific purpose of the corporation.
- The names and addresses of the directors and incorporators. Depending on the state, one to five incorporators must reside in the state in which the application is made.
- The location of the company's main office.
- The duration of the corporation.
- The amount and kinds of capital stock issued at the outset of the operations.
- A full description of the voting rights of the stockholders.

The original owners must also draw up a set of bylaws. The bylaws should state the regulations and limits of the corporation. This

protects all the owners, present and future, from unwise or selfish decisions by the board of directors. From the time the charter fee is paid (varies from state to state and can be quite expensive) and the certificate is issued, all agreements are made in the name of the company and not in the owners' names. The owners are merely stockholders who may or may not be involved in the actual operation of the business.

An example of Articles of Incorporation may look like the following:

ARTICLES OF INCORPORATION

We the undersigned natural persons of the age of 21 years or more, acting as incorporators of a corporation under the _____ Business Corporation Act, adopt the following Articles of Incorporation for such corporation:

FIRST: The name of the corporation is _____

SECOND: The period of its duration is _____

THIRD: The purpose or purposes for which the corporation is organized are: _____

_____

FOURTH: The total number of shares that the corporation shall have authority to issue is: _____

FIFTH: The corporation will not commence business until at least one thousand dollars has been received by it as consideration for the issuance of the shares.

SIXTH: Provisions limiting or denying to shareholders the preemptive right to acquire additional or treasury shares of the corporation are: _____

SEVENTH: Provisions for the regulation of the internal affairs of the corporation are: _____

EIGHTH: The address of the initial registered office of the corporation is: _____

_____

and the name of its initial registered agent at such address is: ___

NINTH: The number of directors constituting the initial board of directors of the corporation is ____ and the names and addresses of the persons who are to serve as directors until the first annual meeting of shareholders or until their successors are elected and shall qualify are:

Name	Address
_____	_____

TENTH: The name and address of each incorporator is:

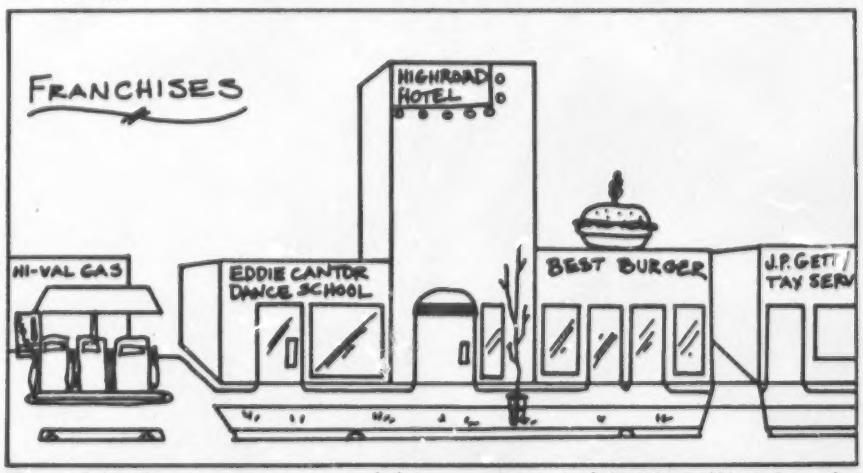
Dated, _____ 19-- Incorporators

FIGURE 1. Basic form for applying for incorporation

SOURCE: Hodgets, R. M. *Effective Small Business Management.* New York: Academic Press, 1982, p. 179.

WHAT DOES BEING A FRANCHISE MEAN LEGALLY?

A franchise provides many advantages to the new owner. In a franchise agreement, you get help in doing many of the business functions in return for maintaining a certain level of service and for paying a fee to the franchisor. You also have the advantage of a name already known to the public. This often attracts customers by itself. Becoming a franchisee allows you to benefit from the experiences of the parent company or other franchises that have tried and rejected many approaches before settling on the "right" one.



Franchise business accounted for an estimated $430 million in sales in 1982. Table 2 gives some idea of the types of businesses that are being franchised today.

If you are interested in opening a franchise, it would be wise to contact one or more of the franchisors in that industry. By doing this, you can find out what it costs and what assistance they have available

before "going it alone" as a sole proprietor. The franchise company should also be checked out with your local Better Business Bureau, the Bureau closest to the franchisor's headquarters, and the National Better Business Bureau, for possible complaints.

WHAT SHOULD THE FRANCHISE AGREEMENT INCLUDE?

The franchise agreement includes many things, one of the most important being the fee payment to the franchisor. Most often the franchisor receives a percent of gross sales.

A standard fee is sometimes used, and it can be hard to pay in lean times, especially when the business is just beginning. An example of this would be if a fee of $400 per month is set, and, in a bad month, profits are only $340. Many parent companies are now going to a combination of small flat fee plus 2 percent of gross sales.

A good franchise agreement includes, in addition to the fee requirement, details covering many factors. In *Current Legal Forms with Tax Analysis*, Vol, 1A, by Rabkin and Johnson (1981), several items are suggested that should be stated in the franchise agreement. Some of these items include:

- Term and renewal
- Franchisor approval of lease
- Exclusive territory
- Training by franchisor
- Franchisor help with opening
- Operating manual
- Advertising by franchisor
- Advertising by franchisee
- Termination by franchisor
- Termination by franchisee

Following are some examples of specific clauses commonly found in franchise agreements:

TABLE 2

FRANCHISING IN THE ECONOMY

	Establishments (Number)			Sales ($000)			Percent Changes 1981–1982		Percent Changes 1981–1982	
	Total	Company-Owned	Franchisee Owned	Total	Company-Owned	Franchisee Owned	Estab.	Sales	Estab.	Sales
TOTAL–ALL FRANCHISING	465,594	87,774	377,820	437,439,551	58,564,619	378,874,932	4.1	15.1	5.2	30.1
Automobile and Truck Dealers [1]	28,320	150	28,170	194,295,000	1,046,000	193,249,000	–2.0	17.9	–3.8	35.1
Automotive Products and Services [2]	43,151	4,351	38,800	8,289,963	2,599,526	5,690,437	5.9	9.7	7.3	17.0
Business Aids and Services	50,193	6,780	43,413	9,081,280	1,600,846	7,480,434	13.3	19.1	22.8	34.6
Accounting, Credit, Collection Agencies and General Business Systems	2,743	49	2,694	154,482	12,875	141,607	14.9	21.9	15.4	28.0
Employment Services	5,395	1,499	3,896	2,186,732	935,520	1,251,212	14.1	18.5	22.4	37.2
Printing and Copying Services	4,171	146	4,025	545,398	22,764	522,634	20.1	20.8	48.9	49.5
Tax Preparation Services	9,644	4,518	5,126	371,191	202,691	168,500	2.7	12.4	5.0	28.3
Real Estate [3]	21,116	224	20,892	4,475,469	148,985	4,326,658	14.6	16.6	22.1	25.9
Miscellaneous Business Services	7,124	344	6,780	1,348,008	278,011	1,069,997	21.1	30.7	48.5	63.4
Construction, Home Improvement Maintenance and Cleaning Services	16,422	643	15,779	1,958,850	272,450	1,686,400	9.5	18.0	14.8	32.8
Convenience Stores	17,312	10,076	7,236	9,052,060	5,557,297	3,494,763	6.5	4.6	10.9	15.7
Educational Products and Services	4,128	666	3,462	450,395	94,150	356,245	14.4	15.9	27.3	32.9
Restaurants (All types)	69,137	20,056	49,081	36,483,817	11,710,723	24,773,094	8.8	15.6	15.3	30.9
Gasoline Service Stations	147,000	26,460	120,540	117,762,000	21,197,000	96,565,000	–2.8	12.0	–7.3	24.7
Hotels, Motels and Campgrounds	6,904	1,008	5,896	11,819,636	3,124,863	8,694,773	3.9	10.0	7.5	24.3
Laundry and Drycleaning Services	3,346	61	3,285	304,574	31,200	273,374	3.8	8.0	–2.4	8.7
Recreation, Entertainment and Travel	5,293	105	5,188	829,964	35,361	794,603	7.8	34.1	14.0	60.9
Rental Services (Auto-Truck)	7,989	2,161	5,828	3,728,810	1,564,735	2,164,075	4.6	10.2	9.5	18.5
Rental Services (Equipment)	2,797	277	2,520	447,827	115,582	332,245	15.5	16.2	27.3	25.9
Retailing (Non-Food)	39,306	13,368	25,938	12,886,981	5,671,791	7,215,190	8.2	12.5	11.5	22.5
Retailing (Food Other than Convenience Stores	17,362	1,200	16,162	9,213,324	2,413,105	6,800,219	6.8	11.5	12.0	24.0
Soft Drink Bottlers [1,3]	1,700	75	1,625	20,089,000	1,406,000	18,683,000	–2.9	19.4	–8.1	40.0
Miscellaneous	5,234	337	4,897	746,070	123,990	622,080	21.4	29.2	44.7	66.9

SOURCE: U.S. Department of Commerce. *Franchising in the Economy, 1980–1982.* Washington, DC: Government Printing Office, 1982.

[1] Estimated by BIE, based on Bureau of the Census and Trade Association Data.

[2] Includes some establishments with significant sales of nonautomotive products, such as household appliances, garden supplies, etc.

[3] Includes soft drinks, fruit drinks and ades; syrups, flavoring agents and bases. Data do not include figures for independent private labels and contract-filler bottling companies, which account for 22 percent in 1980, 22 percent in 1981, and 22 percent in 1982 of the value of shipments of the total industry.

[4] Gross commissions.

- **Term and Renewal.** The initial term of this Agreement shall be for five years. Such Agreement may be renewed for an additional five years upon the following conditions. If the Licensee shall not be in default hereunder, at the expiration of the term hereof or of any renewal(s), the Licensee is granted the right to renew his or her license to operate a franchised restaurant within the trade area outlined in Exhibit "A" attached hereto upon execution of the form of License Agreement and the payment of all fees and charges then in effect. The right to renew must be exercised and License Agreement executed not less than 180 days before the expiration of the term hereof or any renewal(s), time being of the essence.

- **Franchisor Approval of Lease.** If the operator will occupy the premises from which its business is conducted under a lease, sublease, or other written contract of tenancy from the owner thereof, the operator shall prior to the execution thereof submit such lease, sublease or other contract to the company for its written approval.

- **Exclusive Territory.** Franchisor agrees that during the term of this Franchise Agreement it will not appoint another franchisee for a licensor establishment whose franchise facility is located within a radius of ten miles from the franchise facility of franchisee.

- **Training by Franchisor.** The company shall maintain a unit and/or training center in New York City, or elsewhere as the company may from time to time elect, for training franchisee and such of his managerial and supervisory employees as the company may determine. It is required that all of the managerial or supervisory employees be trained for a two-week period of time.

- **Franchisor Help With Opening.** Franchisor shall provide a staff representative to assist in the opening of franchisee's restaurant, provided that such representative shall not be required to assist franchisee for a period exceeding five days. Franchisee agrees to pay up to $750 for promotion and advertising of the opening of franchisee's restaurant.

- **Operating Manual.** Franchisor will also lend franchisee its Operations Manual and any amendments thereto, which sets forth all procedures, including but not limited to, the preparation of foods, purchasing and servicing procedures, and the like, which franchisee must follow. Franchisee agrees to comply with the terms and provisions of the Operations Manual and not to divulge to others or reproduce any part thereof. Upon termination of this Agreement for any cause whatsoever, the Operations Manual is to be returned to Franchisor.

- **Advertising by Franchisor.** Franchisor agrees to expend advertising fees paid to it by Franchisee for national and regional advertising and promotion and to allocate such expenditures on a reasonable basis, provided that Franchisee shall have no right, claim, or interest of any kind in or to any advertising fee paid by Franchisee to Franchisor or to any allocation of such advertising fees between national and regional advertising and promotion.

- **Advertising by Franchisee.** Franchisee shall be required to expend annually for such advertising and promotion, exclusive of national or regional advertising, a sum not less than 3 percent nor more than 5 percent of the annual gross sales from the franchised business during the prior year or part thereof, provided however, Franchisee may elect to expend a greater sum. During the first 12 months of the franchised business, gross sales shall be projected and determined by Franchisor. Such advertising expenditures shall be in addition to the cost of the opening advertising program, prepared or recommended by Franchisor.

WHAT IS INVOLVED IN A COOPERATIVE?

One of the real attractions of a cooperative to beginning entrepreneurs is the opportunity to increase each member's purchasing power by pooling funds with others. A cooperative can be formed whenever a group of people with similar interests decide to combine their efforts to achieve their purposes more effectively or more economically. They may want to buy supplies, to sell products, or to buy or to sell services. For example, farmers may form a cooperative to sell gasoline or farm equipment so they can all have

access to the production factors they need. Or they may organize to process and market their products. Consumers may unite to develop stores to compete with existing retailers. In every case, the members are hoping to gain advantages of size—advantages in control or power, large-scale distribution, or large volume purchasing. For example, collective purchases may reach a high enough volume to qualify for quantity discounts and cash term discounts.

The money to start a cooperative is raised by selling shares to the members. This money is used to hire a manager, to rent or buy a facility, and to operate the business. Overall policies are set by a board of directors, with each member of the cooperative generally

having one vote regardless of the number of shares owned. The cooperative keeps records of each member's purchases or sales. These are used as the basis for the yearly distribution of profits to the members.

Cooperatives have some additional benefits:

- Cooperative activities, such as buying, selling, and providing services, are means to meet specific needs and problems of the membership.
- Costs and benefits of the cooperative are shared by its membership. The membership can influence decisions on how the cooperative is run by exercising voting rights, expressing concerns, and participating in action groups.
- Cooperatives usually succeed when members are enthusiastic about the organization; conversely, a cooperative will eventually fail whenever the membership ceases to support it or loses interest.

WHAT ARE THE MEMBERSHIP RESPONSIBILITIES IN A COOPERATIVE?

Members of a cooperative must assume certain responsibilities if the cooperative is to be successful. Members have to:

- Make use of the cooperative.
- Work to keep other members satisfied with the cooperative.
- Attend meetings and prepare corrective action needing membership consideration.
- Abide by the membership agreement contract.

As a member of a cooperative, you must "cooperate" with the other members to make the organization work for everyone. Like a partnership or corporation, you own a share of the business.

ACTIVITIES

Do you feel knowledgeable enough about the various organizational patterns available? The following activities will aid you in assessing your knowledge.

INDIVIDUAL ACTIVITY

Find "franchise opportunity" ads in your local newspaper and write to two companies listed for the types of business you are interested in. Your letter should include questions aimed at getting the specific answers you need (for example, ask about assistance provided by franchisor, all costs, building planning, and advertising arrangements).

Should your local paper not include any franchise opportunities, check in your library for the latest edition of the Franchise Opportunities Handbook, U.S. Department of Commerce. Locate a franchise that appeals to you in this directory and write the franchisor requesting the same information.

INDIVIDUAL ACTIVITY

Contact a cooperative, such as Rexall Drugs, Independent Grocers Association, or American Merchandising Corporation. Get as much information as possible regarding the cost, services, and relationships required to become a member.

INDIVIDUAL ACTIVITY

Compare the legal implications and requirements between sole proprietorship, partnership, and corporation. You might want to set up a chart similar to the following:

Legal Requirements	Proprietorship	Partnership	Corporation
1. Taxes			
2. Charter for Operation			
3.			
4.			

INDIVIDUAL ACTIVITY

Get a form from your instructor for analyzing the appropriate choice of ownership. For your business, rate each factor according to its importance to you. Compare your ratings with table 1 in the unit. You may see your particular situation fitting into one of the types of ownership given.

GROUP ACTIVITY

Get together in small groups, three to four persons per group. Look for advertisements of a partnership, a corporation, and a franchise in your local newspaper and in *Time* or a similar magazine. Indicate how the ads differ. Why are they different? Single out an advertisement for a business in which you have at least some interest, and find out more about it. Contact the seller and get such information as: selling price, status of inventory, profit margin, and so forth. Then give an example of what should be included in the

Articles of Copartnership, the Certificate of Incorporation, or the Franchise Agreement, depending on the type of business your group has chosen.

CASE STUDY

Ms. Himske has been the sole proprietor of an electronics supply firm at one of the best locations in town for almost two years. The business has been very profitable and has allowed her to save almost $75,000 over the two years. She has also paid off the mortgage on her home.

Ms. Himske has been looking for a way to expand the business in order to make more profit, but no available land is adjacent to her business. She is somewhat apprehensive about operating two electronic supply firms in two separate locations. She enjoys making independent decisions and feels that her presence has been the key to her business success.

Mr. Johnson, a business acquaintance, has approached Ms. Himske about the possibility of forming a partnership. Mr. Johnson owns and operates two fairly successful electronic supply firms on the other side of town. He has managed them for one year, ever since his father retired and left the business. During the past year, profits have been dwindling. Mr. Johnson believes this is a result of his poor management, since the two electronic supply firms had been profitable for years under his father's management. Together, Mr. Johnson's two electronic supply firms are worth almost three times the value of Ms. Himske's business. Mr. Johnson is aware of this, but is willing to make the new partnership a fifty-fifty arrangement. They would share all profits and each would own one-half of the business.

Ms. Himske has told Mr. Johnson that she would go home and think it over. Although, on the surface, it sounds like a good business opportunity, Ms. Himske wants to be sure that she would not be making a mistake by accepting the offer. She knows Mr. Johnson is not a very good businessman, but she would like to take advantage of the opportunity to expand.

- What factors should Ms. Himske consider in making the decision?
- Should Ms. Himske accept Mr. Johnson's offer? Make two separate lists of reasons for acceptance and for rejection.
- If she accepts the offer, what should Ms. Himske include in the articles of copartnership?

ASSESSMENT

Directions: Read the following questions to check your own knowledge of these topics. When you feel prepared, ask your instructor to assess your competency on them.

1. List the items you would consider in an Articles of Copartnership for your business if you were seeking to start a partnership.
2. Explain the essentials of a Certificate of Incorporation.
3. List the responsibilities of the members of a cooperative.

SOURCES USED TO DEVELOP THIS UNIT

Hodgetts, R.M. *Effective Small Business Management.* New York: Academic Press, 1982.

Kuebbeler, Gary L. *Going into Business for Yourself.* Columbus: Ohio Distributive Education Materials Lab, The Ohio State University, n.d.

Rabkin, J., and Johnson, M.H. *Current Legal Forms with Tax Analysis.* Vol. 1A. New York: Matthew Bender, 1981.

U.S. Department of Commerce. *Franchising in the Economy 1980-1982.* Washington, DC: U.S. Government Printing Office, 1982.

Level 3

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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